CA2ON
Z 1
-63A22

34-10

NOV 22 1963

ONTARIO MINING ASSOCIATION
320 Bay Street
Toronto 1

Chairman and Members,
The Ontario Committee on Taxation
88 University Avenue
Toronto 1, Ontario.

Gentlemen:

The Ontario Mining Association is pleased to present this submission which contains recommendations with respect to three Ontario tax acts and to The Assessment Act.

The Ontario Mining Association is a non-profit, voluntary Association incorporated by Letters Patent in Ontario in 1920. Its members, some sixty in number, comprise most of the producing mines and reduction plants in the Province. These companies employ some 38,000 persons being about 90% of the total in the industry in Ontario. They produce all or most of the asbestos, cobalt, copper, gold, iron, nickel, platinum, salt, silver, uranium-oxide, and other metals which collectively make up Ontario's metallic and non-metallic mineral production.

The British North America Act, under Section 109, vests in the provinces, all lands, mines, minerals, and royalties which are situated therein or which arise therein. Section 92 of the Act gives each province the exclusive right to levy direct taxes.

The mining industry in Ontario shares with every other industry and business in the province, a direct interest in general tax policies at the federal and provincial level and in the structure of tax legislation.

This submission, however, will be mostly confined to taxes which apply to metallic and non-metallic mines in Ontario and to general comments on the status of the mining industry together with its impact on the economic well being of the country.

Quite apart from tax rates and other related matters the Industry is concerned with the overlapping and pyramiding effect of taxation. There is, for example, provincial sales tax on top of federal sales tax, provincial corporation tax in excess of federal abatement and mining taxes not fully allowed as an expense in provincial and federal corporation taxes.

..

Ontario has six resource-based industries: agriculture, fisheries, forestry, mining, trapping, and water power. Of these only logging, part of the forest industry, and mining are singled out for an additional tax levy. For the logging industry a tax is levied under The Logging Tax Act and for mining under The Mining Tax Act. The latter supplants direct assessment by municipalities on certain mine plant buildings.

RECOMMENDATIONS

1. The Corporation Tax Act

(a) That the corporation tax rate should not exceed the rate of Federal abatement;

(b) that collection of the corporation tax be made by the Federal authorities along the lines of the personal income tax collections;

(c) that the Provincial Government make strong representation to the Federal Government to amend federal Regulation 701 so that royalties paid under The Mining Tax Act be properly and fairly allowed as a deduction from income subject to tax under The Income Tax Act;

(d) that provincial Regulation 301 be amended to allow deduction of mining taxes in full, or that Section 22(1)(p)of the Act be amended to allow - mining taxes in full.

2. The Mining Tax Act

(a) that the present graduated scale of tax rates be replaced with a single fixed royalty rate of 6% of mining profit, which is the present base rate;

(b) that a mining company have the option of continuing to compute depreciation on a straight line basis or of electing to claim capital cost allowance in the same amount as claimed under The Corporation Tax Act;

(c) that provision be made for write-off of pre-production development expenditures, and

(d) that assistance received under the Emergency Gold Mining Assistance Act be excluded in ascertaining the profit of a gold mine under The Mining Tax Act.

3. The Retail Sales Tax Act

That The Retail Sales Tax Act, together with present rulings, remain generally unchanged.

4. The Assessment Act

That sub-section 5 of Section 35 of The Assessment Act be retained without change to provide exemption from municipal assessment of certain mine plant buildings and minerals.

COMMENTS ON RECOMMENDATIONS

The Corporation Tax Act

The growing tax burden is of increasing concern to the mining industry as it reduces ability to compete profitably in World markets and lessens profit for the shareholder.

With the experience of the retail sales tax, a lucrative field, it would seem most timely that consideration be given to reducing the corporation tax to a rate not higher than the rate of Federal abatement which is currently 9%.

The Province is to be commended for its acceptance of the Federal offer to collect the Province's share of tax on incomes of individuals. It is urged that consideration be now given by the Province to have Federal collection of the Province's share of the corporation tax along the lines of those for personal income tax collections.

Corporate tax payers should not be required to file more than one tax return or to have more than one jurisdiction with which to take up objections to, and appeals from, assessments. Acceptance of the Federal offer would mean worthwhile savings to the Province and to the taxpayer in administration and other related costs.

REGULATIONS 701 and 301 - Allowance for Mining Taxes paid under the Income Tax Act and The Corporations Tax Act

In recommending that the Provincial Government make strong recommendations to Ottawa to have Regulation 701 amended to remove the inequities and unfairness in the administration of this Regulation, we would point out that all the mining industry is requesting is that full and proper allowance for mining royalties paid under The Mining Tax Act be allowed under the Income Tax Act in accordance with the understanding given to the mining industry by the Provincial and Federal Governments following the Dominion and Provincial Conference in 1946 and in accordance with the interpretation and administration of this section until recently. Mining industry representation to Revenue officials in Ottawa has, except for an obvious technical amendment, been refused and the co-operation of the Provincial Government is requested to correct the inequities involved.

The problem arises from the fact that the mining tax is not recognized as a royalty in the computation of taxable income under either the Income Tax Act (Canada) or The Corporations Tax Act (Ontario), except to the extent that the tax base is not greater than "income derived from mining

COMMENTS ON RECOMMENDATIONS

The Corporation Tax Act

The growing tax burden is of increasing concern to the mining industry as it reduces ability to compete profitably in World markets and lessens profit for the shareholder.

With the experience of the recall sales tax, a lucrative field, it would seem most timely that consideration be given to reducing the corporation tax to a rate not higher than the rate of Federal abatement which is currently 9%.

The Province is to be commended for its acceptance of the Federal offer to collect the Province's share of tax on incomes of individuals. It is urged that consideration be now given by the Province to have Federal collection of the Province's share of the corporation tax along the lines of those for personal income tax collections.

Corporate tax payers should not be required to file more than one tax return or to have more than one jurisdiction with which to take up objections to, and appeals from, assessments. Acceptance of the Federal offer would mean worthwhile savings to the Province and to the taxpayer in administration and other related costs.

REGULATIONS 701 and 301 - Allowance for Mining Taxes paid under the Income Tax Act and The Corporations Tax Act

In recommending that the Provincial Government take strong recommendations to Ottawa to have Regulation 701 amended to remove the inequities and unfairness in the administration of this Regulation, we would point out that all the mining industry is requesting is that full and proper allowance for mining royalties paid under The Mining Tax Act be allowed under the Income Tax Act in accordance with the understanding given to the mining industry by the Provincial and Federal Governments following the Dominion and Provincial Conference in 1956 and in accordance with the interpretation and administration of this section until recently. Mining industry representation to Revenue officials in Ottawa has, except for an obvious technical amendment, been refused and the co-operation of the Provincial Government is requested to correct the inequities which exist. The problem arises from the fact that the mining tax is not recognized as a royalty in the computation of taxable income under either the Income Tax Act (Canada) or The Corporations Tax Act (Ontario), except to the extent that the tax base is not greater than "income derived from mining

operations" as defined in Regulation 701 of the Income Tax Act and comparable Regulation 301 of The Corporations Tax Act. This definition of "Income derived from mining operations" can be quite different from that applied by the Mine Assessor in determining "profit" under The Mining Tax Act.

By prescribing a mathematical equation with unrelated numerator and denominator, Regulation 701 (as presently written) renders it impossible to produce an allowance for mining taxes paid such as was intended according to the mining industry's understanding of Section 11(1) (p) of the Income Tax Act.

There is a root equivocation in the term "income", which in one part of the formula means income as determined for federal purposes and, in the other, income as determined for provincial purposes. These two quite different meanings of the term "income" render the equation meaningless and impracticable.

The basic problems are (1) that some expenditures allowed in computing the numerator are not allowed in computing the denominator and vice versa; and (2) that other deductions such as depreciation, while having been taken into account in both the numerator and the denominator, are computed by different methods and result in widely different amounts. Even where the taxpayer is eventually allowed the same total deduction over a period of years (e.g. depreciation), the disallowance under the formula in one year cannot be recovered in other years because of the limitation of the allowance to the amount of mining tax actually paid for the year.

If a mining company has no income other than income from mining operations and pays a mining tax (in effect, a royalty) to a province which allows a deduction for processing in accordance with the federal formula, the mining tax so paid should be allowed in full as an expense. This has been the long-established practice and procedure until recently.

Under Regulation 701, as now written, this is not the case. Under certain circumstances, no provincial mining tax whatever would be allowed as an expense.

The original intention was that both the numerator and denominator represented income as determined by provincial authorities except that any income subject to provincial mining tax which was not derived from mining operations and any profit deemed to be earned by processing of the ore had to be excluded from the numerator. Thus the total of the

operations" as defined in Regulation 701 of the Income Tax Act and comparable Regulation 301 of The Corporations Tax Act. This definition of "income derived from mining operations" can be quite different from that applied by the Mine Assessor in determining "profit" under The Mining Tax Act.

By prescribing a mathematical equation with unrelated numerator and denominator, Regulation 701 (as presently written) renders it impossible to produce an allowance for mining taxes paid such as was intended according to the mining industry's understanding of Section 11(1) (p) of the Income Tax Act.

There is a cost equivocation in the term "income", which in one part of the formula means income as determined for federal purposes and, in the other, income as determined for provincial purposes. These two quite different meanings of the term "income" render the equation meaningless and impracticable.

The basic problems are (1) that some expenditures allowed in computing the numerator are not allowed in computing the denominator and vice versa, and (2) that other deductions such as depreciation, while having been taken into account in both the numerator and the denominator, are computed by different methods and result in widely different amounts. Even where the taxpayer is eventually allowed the same total deduction over a period of years (e.g. depreciation), the disallowance under the formula in one year cannot be recovered in other years because of the limitation of the allowance to the amount of mining tax actually paid for the year.

If a mining company has no income other than income from mining operations and pays a mining tax (in effect, a royalty) to a province which allows a deduction for processing in accordance with the federal formula, the mining tax so paid should be allowed in full as an expense. This has been the long-established practice and procedure until recently. Under Regulation 701, as now written, this is not the case. Under certain circumstances, no provincial mining tax whatever would be allowed as an expense.

The original intention was that both the numerator and denominator represented income as determined by provincial authorities except that any income subject to provincial mining tax which was not derived from mining operations and any profit deemed to be earned by processing of ore had to be excluded from the numerator. Thus the total of the [illegible]

above-mentioned excluded items in relation to the profit taxed by the province determined the amount of mining tax not allowed as an expense. This was a reasonable and workable equation and was applied satisfactorily for many years.

It is our view that under the formula previously in use the federal government was adequately safeguarded against any inroads which a provincial authority might attempt to make on its tax revenue by taxing income other than income derived from mining operations under the guise of a mining tax.

Under Regulation 701 (2)(a)(ii)(A) income other than profits derived from "mining, processing and sale of mineral ores, minerals and products produced therefrom" can be readily determined by federal assessors. Having been so determined, it can be excluded from the "profit" or "income" upon which the province bases its tax. There would thus be removed from any allowable expense for mining tax that portion of the tax not considered by the federal authorities to be a tax on mining income.

Our recommendation is that the <u>numerator of the equation</u> should be the "profit" or "income" as assessed by a province for mining tax purposes less the deductions presently provided for by paragraphs (A)(income derived from other than mining operations) and (B) (processing allowance) of Regulation 701 (2)(a)(ii) to the extent that they have not already been deducted by the province in determining the "profit" or "income" as assessed by the province; and <u>the denominator</u> should be the "profit" or "income" so assessed by the province.

In these circumstances the only factor which could possibly be open to dispute is "income derived from other than mining operations". In the great majority of cases no differences of opinion could arise. If such differences do arise, they could be resolved by the existing process of tax appeals.

In Exhibit "A" attached hereto specific instances of anomalies are listed which could and do arise under Regulation 701 as now written and Exhibit "B" gives details of a re-assessment of a gold mining company illustrating some of their effects.

It is to be noted that, according to circumstances, either the mining company concerned or the federal treasury can be penalized. We cannot believe that such a result is satisfactory either to the federal government or to the taxpayer.

Digitized by the Internet Archive
in 2025 with funding from
University of Toronto

https://archive.org/details/submissionstaxat034onta

It may be further noted that that part of the mining tax which is in effect a municipal tax (in lieu of a tax directly assessed by a municipality) is lost sight of even though this part of the tax, if assessed directly by a municipality, would be allowed without question as a deductible expense under both income tax acts.

The situation is further aggravated in the case of gold mines which receive assistance under the Emergency Gold Mining Assistance Act (Canada). Section 2(1)(c) of this Act defines "cost of production" and says, in part, "but does not include - - - or, subject to regulations, any amount in respect of any matter for which a deduction is not allowed in determining income from the mine for the purposes of the Income War Tax Act". Thus to the extent to which Ontario mining tax is not allowed in computing income under the income tax acts, the same amount is disallowed in computing "cost of production" under the Emergency Gold Mining Assistance Act: assistance payments are reduced accordingly.

The Mining Tax Act

The present Act dates back to 1907. It replaced earlier legislation which, in one form or another, imposed a royalty on ore mined. The basis of the tax is still the value of the ore at the pit's mouth and so, as such, indicates that the tax is in reality a royalty. The right of the province to a royalty on the value of natural resources extracted from its domain is well established.

The method used to determine the value of the ore at the pit's mouth recognizes the fact that the relative value of deposits of different minerals is best measured by the amount of profit which remains after deducting the cost of mining and processing the ore. The value of the ore is determined by the Mine Assessor. Simply stated the method used is to deduct from the sale value of the metal derived from the ore, marketing, mining and processing costs and an assumed profit on processing (as distinguished from mining) and the balance remaining is the calculated value of the ore at the pit's mouth. In other words, it is the profit derived from mining operations. The amount in excess of $10,000 is subject to graduated percentages to determine the amount of the tax or royalty.

In arriving at the pit's mouth value of the ore (so called under The Mining Tax Act) and profits from mining (so called under the income tax acts) recognition is given to the assumption that part of the profit of a

mining company from the sale of its product arises from its processing operations as distinguished from the value of the raw ore. A deduction is allowed for the processing profit (allowance) based on 8% of the value of the processing assets (subject to certain limitations).

Prior to 1951 revenue derived from this tax or royalty was directly shared with the municipality in which the mine was located. It is still shared with municipalities but indirectly on a basis which recognizes the right of "dormitory" municipalities to a share of the tax. In return for this sharing, municipalities are restricted in the assessing of mining properties. Thus the tax or royalty in part is in reality a municipal tax.

The subsequent introduction of income taxes, both federal and provincial, created problems of priority and deductibility of the mining tax in the computation of income taxes. The method of computing the tax base under The Mining Tax Act and the introduction of graduated rates of taxes has mitigated against the tax being acknowledged by Canada and Ontario income taxation authorities as a royalty; rather it is considered as just another income tax. This interpretation has led to the situation where mining companies are now subject to double taxation. This becomes more serious when one considers the percentage rates now being applied to the base "taxable profits". The present rates under the Mining Tax Act are:

6% on profits over $ 10,000 and up to $1,000,000

11% on profits over $ 1,000,000 and up to $5,000,000

12% on profits over $ 5,000,000

The levy should be restored to its original concept of being a royalty at a fixed percentage of mining profit. This is all the more applicable today when the profits remaining after payment of mining tax are subjected to the imposition of the corporation income tax. A single fixed rate, not in excess of 6%, the present base rate, is recommended.

Depreciation Allowances

In the matter of depreciation allowances, consideration should be given to permitting corporations to have greater flexibility in amounts allowed in computing depreciation as is afforded by the income tax acts. For practical purposes the same rates could be adopted.

Write-Off of Pre-production development expense

Under The Mining Tax Act there are no incentives to encourage the opening of new mines in the Province. It is believed consideration should

now be given to this matter. One suitable form would be allowance for write-off in the early production years of the mine, of expenditures incurred in developing the mine prior to commencement of production. Preproduction costs are a direct cost of the production of metals. It is as essential to the earnings of taxable profits from the mine as the depreciable assets. That portion of preproduction expenditures which are costs of developing the mine should be recoverable before the profits subject to tax are determined. The opportunity for an increased cash flow in the early life of a mine would expedite financial arrangements leading to production.

Gold Mine Assistance

The Mining Tax Act provides that assistance payments received by gold mines under the Emergency Gold Mining Assistance Act be included in the calculation ascertaining value of the ore for the purpose of tax. It could properly be argued that for the purpose of royalty assessment the receipt of these assistance payments does not, in fact, increase the value of the ore at the shaft head, neither do the payments in any way reduce the costs applicable thereto. Any assessment on this royalty reduces the amount of intended assistance which is vital for the continued operation of most gold mines. It must be pointed out that Assistance payments are also subject to both Federal and Provincial income taxes.

Gold mining is a declining industry in Ontario and that decline will continue, and probably at an accelerated rate, as the older mines deplete their ore reserves. It would be helpful to have as many gold mines as possible continue in production to provide gold for Canada's coffers, employment for miners, and support for the gold mining communities. One measure which could be of immediate and appreciable aid in this respect would be to exclude assistance payments as income for the purpose of The Mining Tax Act and it is so recommended.

GENERAL

Growth in metal consumption is considered one of the best single measures of man's material progress. In the United States, for instance, copper consumption has increased from five pounds per capita per year in 1900 to about eighteen pounds in recent years. Canada is only slightly lower at around sixteen pounds per capita. The next highest area is Europe at about nine pounds per capita.

Natural resources of farm, forest, minerals, and water provide an important and sound basis for industrial growth. Ontario's growth has been promoted by its mineral production.

Canada's economic well being is dependant upon a high export rate. The rate is currently about 15% of G.N.P. About 60% of the national output of minerals and mineral-based products is now being exported and their export value exceeds that of any other industry. In 1962 their export value of over $2.5 billions accounted for over 40% of the total value of all exports.

The United States has been and should continue to be, Canada's largest buyer of minerals and mineral products, providing the price and quality are right. Many countries are now pushing development, production, and export sales of industrial raw materials so as to improve the living standards of their people. In face of this expanding world-wide competition, of which the mining industry is well aware, a good home environment is of utmost importance.

Mineral discoveries made in past years and brought into production, have been the main stimulant in the development and colonizing of Northern Ontario. These discoveries include silver at Cobalt and nickel at Sudbury, both of which were found coincident with railway construction. There were gold discoveries at Kirkland Lake, Porcupine, and Red Lake; copper at Manitouwadge; iron at Wawa and Atikokan, and uranium at Elliot Lake. All these latter discoveries were located in the bush, miles away from railways, roads, highways, hydro power supply, communications, and urban communities. To bring these discoveries into production all the services listed and many more had to be provided wholly or at least in part,by the mining companies.

These mines currently provide employment for some 42,000 persons and form the main support for mining communities with a collective population of over 300,000.

The value of Ontario's metallic and non-metallic mineral products is estimated to exceed $750 million for the year 1962. This is about double the value in 1952 and about four times the rate of production at the end of World War II. While some decline in value has taken place in the past two years due to curtailment in uranium production, it still represented over 31% of Canada's total in 1962.

Canada's mineral production in 1962 was valued at approximately $2.8 billion or about 7% of Gross National Product, which exceeded $40 billion.

Five of the 7% was contributed by mining and mineral processing sections of the industry.

Without its mines there would have been little reason to build the 16,000 miles of roads and highways now open for public use in the southern part of northern Ontario. These roads serve the needs of the mines, farms, local residents, part of the needs of the forest industries, routes for trappers, tourists, and excellent jumping off places for the vacationer, the angler and hunter, many of whom are visitors from the United States.

Mining is the main resource based industry in northern Ontario and agriculture is the main resource based industry in southern Ontario. The estimated net value of production of the five resource industries is $593 per person in northern Ontario and $120 per person in southern Ontario. Omitting agriculture, northern Ontario, with 11.4% of the population, is accountable for about 80% of the net value of the production of the remaining natural resources. These comments are based on the table below taken from the publication "Ontario Economic & Local Aspects 1961".

Estimate Net Value of Production by Industry
Northern and Southern Ontario, 1958
(Thousands of Dollars)

Industry	Total Ontario	Northern Ontario Value	%	Southern Ontario Value	%
Agriculture	$ 590,306	$ 23,269	3.9	$ 567,037	96.1
Forestry	87,633	80,940	92.4	6,693	7.6
Fisheries	7,271	1,570	21.6	5,701	78.4
Trapping	2,713	1,494	55.1	1,219	44.9
Mining	401,231	314,577	78.4	86,654	21.6
Totals	$ 1,089,154	$ 412,850	38.7	$ 667,304	61.3
Electric Power	261,370	57,592	22.0	203,778	78.0
Manufacturers	4,914,074	433,401	8.8	4,480,673	91.2
Construction	1,394,626	81,951	5.9	1,312,675	94.1
	$ 7,659,224	$ 994,794	13.0	$ 6,664,430	87.0

Net value equals value added. This is, the total value of output (excluding direct taxes) for each industry, less the cost of materials, fuel, purchased electricity, and process supplies consumed in the production process. Northern Ontario includes the northeastern and northwestern regions.

The impact of mine production is not limited to benefits gained from mineral use and exports. One of the larger mines made an analysis of its $6.8 million expenditure in 1962 for process machinery, supplies and fuels. The study showed that over $6 million or 88% of purchases were made for

Canadian produced goods. Of the remainder, almost 5% represented purchase of imported coal and over 6% the purchase of imported items where choice was limited by patents, design and application or cost.

Every mining operation contributes greatly to the economy of the country as it provides man-days of work, a market for production equipment and processing supplies, goods for the market, profit for the investors, taxes for governments and additional roads for the angler and hunter. The increasing mineral production has been a significant factor in providing Canadians with the second highest standard of living enjoyed by any people in the world.

It is also of some interest that the labour content in underground mining costs is high in comparison with manufacturing. For one of the larger underground mines and one of the larger manufacturers it is about 67% and 34% respectively, of operating costs. Most presently operating Ontario mines are underground operations. Open pit mining is largely confined to the production of iron ore.

The stock in trade of a mining company is ore in the ground. As mining progresses, ore is used up and eventually is no more. To ensure continuity as a mining operation the company must search for extensions of known ore deposits and for new ore deposits in its own ground and elsewhere.

This search, or prospecting, is a vital and indispensable part of a mining company's activity. It is also a continuing part of its activity.

About 250,000 square miles, or over 60% of Ontario's area, is underlain with Precambrian rocks. These are the host rocks for all metallic mineral mines in Ontario and for a good part of the non-metallic minerals.

Few parts of the known mineral bearing areas of the Province have not been traversed by at least one prospector. The chances are that most of the surface exposed ore bodies have been found and that future ore bodies will await detection by more sophisticated and expensive methods using such devices and means as geophysical,geochemical, and the like.

A company is fortunate indeed if through a reasonable expenditure

an ore body is located which can be brought into profitable production.

We have set out briefly, some of the highlights of mineral production in Ontario and the economic significance.

We trust this submission has been informative and that the recommendations will receive your earnest consideration.

Respectfully submitted on behalf
of Ontario Mining Association

.....
J. D. Taylor, Chairman Tax Committee

.....
John Beattie, Executive Director

November 15, 1963

EXHIBIT "A"

ANOMALIES IN THE EQUATION PRESCRIBED IN PART VII, SECTION 701 OF THE INCOME TAX REGULATIONS

The following items create some of the anomalies which make it impossible to obtain the intended allowance for provincial mining taxes paid inasmuch as the amount to be taken into account in respect of such items in determining the numerator of the formula prescribed in Regulation 701 is not necessarily equal to the amount to be taken in determining the denominator.

1. CAPITAL COST ALLOWANCE (DEPRECIATION):

Ontario allows depreciation on a straight line method with minimum and maximum rates as compared with the federal reducing balance method with no minimum but with maximum rates. Thus the allowance for depreciation is not the same for purposes of the numerator and denominator (See Exhibit "B")

2. INTEREST ON BORROWED FUNDS:

This is allowed by the federal authorities but it is not considered as a mining expense by Ontario.

3. ADMINISTRATIVE AND CORPORATE EXPENSES:

These are allowed in the federal computation but in Ontario they are disallowed only in part. (See Exhibit "B")

4. MUNICIPAL TAXES:

These are allowed by the federal authorities but in Ontario they are disallowed.

5. EXPLORATION AND DEVELOPMENT EXPENSES:

Expenditures claimed under Section 83A and Regulation 1205 of the Income Tax Act are not deducted in computing the numerator under Regulation 701 as presently worded but similar expenditures claimed under Section 85 I are deducted. Section 83A expenditures include expenditures incurred on the mine property during the preproduction period and expenditures on outside properties before or after production has commenced. Generally speaking, preproduction expenditures are not allowed at all by Ontario. Ontario allows outside exploration expenditures only to the extent that they were expended

on properties within Ontario.

The Income Tax Act makes provision for certain underground development expenditures to be classified as Class 12 under the capital cost allowances regulations. Ontario has no similar provisions. On the other hand Ontario does not require that post-production development expenditures be claimed in their entirety in the year of expenditure.

Thus the treatment of exploration and development expenditures in arriving at the numerator may be very different to the treatment in arriving at the denominator. In some cases this will be of disadvantage to the taxpayer and in other cases it will be of disadvantage to the federal treasury. In Exhibit "B" this is illustrated in the case of outside exploration expenditures.

6. ROYALTY PAYMENTS:

Ontario disallows royalty payments to lessees but, on the other hand, does not include them as mining income of the lessor. To the extent that royalty payments represent a rental of property they are presumably deducted in computing the numerator in the Regulation 701 formula.

7. ASSISTANCE UNDER THE EMERGENCY GOLD MINING ASSISTANCE ACT.

Ontario includes these assistance payments on a cash received basis whereas the federal authorities bring them into income on an accrual basis and this accrual basis would therefore be the amount included in the numerator of the formula fraction. The variances here are often material in amount. (See Exhibit "B")

8. PROCESSING ALLOWANCES:

The basic formula applied in computing these allowances applied in Ontario is the same as under Regulation 701 but the resulting amount might vary. The amount is the greater of (a) the lesser of 8% of the processing assets or 65% of the mining profits, or (b) 15% of the mining profits. Since the mining profits computed under federal rules vary from those computed under Ontario rules, the amount of the processing allowance contained in the numerator may be different to that contained in the denominator.

EXHIBIT "B"

ONTARIO GOLD MINING COMPANY

COMPARISON OF "INCOME DERIVED FROM MINING OPERATIONS IN A PROVINCE" UNDER REGULATION 701 TO "PROFITS" UNDER THE ONTARIO MINING TAX ACT - AND THE EFFECT ON THE DEDUCTION ALLOWED UNDER REGULATION 701

1958	Canada	Ontario Mining
Bullion recovery	$ 2,230,736	$ 2,230,736
E. G. M. A.	245,400	260,059
	2,476,136	2,490,795
Operating expenses	2,135,043	2,135,043
Items disallowed therein:		
Mining tax	1,000	1,000
Donation	60	
Other		26,655
	2,133,983	2,107,388
Depreciation	78,397	164,219
Processing allowance	148,970	148,970
Outside exploration		10,655
Marketing expenses	18,477	18,477
	2,379,827	2,449,709
Tax base	96,309	41,086
Proportion of mining tax allowed	96,309 - 100% (maximum) 41,086	
1959		
Bullion recovery	$ 2,239,884	$ 2,239,884
E. G. M. A.	252,268	221,707
	2,492,152	2,461,591
Operating expenses	2,126,154	2,126,154
Items disallowed:		
Mining tax	1,800	1,800
Donation	100	-
U & O Insurance	2,333	2,333
Other	922	23,486
	2,120,999	2,098,535
Depreciation	65,357	138,886
Processing allowance	146,540	146,540
Outside exploration	-	10,912
Marketing	20,555	20,555
	2,353,451	2,415,428
Tax base	138,701	46,163
Proportion of mining tax allowed	138,701	
	46,163 - 100% (maximum)	

ONTARIO GOLD MINING COMPANY

COMPARISON OF "INCOME DERIVED FROM MINING OPERATIONS IN A PROVINCE" UNDER REGULATION 701 TO "PROFITS" UNDER THE ONTARIO MINING TAX ACT - AND THE EFFECT ON THE DEDUCTION ALLOWED UNDER REGULATION 701

1960	Canada	Ontario Mining
Bullion recovery	$ 2,333,741	$ 2,333,741
E. G. M. A.	238,306	284,779
	2,572,047	2,618,520
Operating expenses	2,147,988	2,147,988
Items disallowed:		
Mining tax	17,560	17,560
Donations	100	
U & O insurance	1,687	1,687
Other	169	25,592
	2,128,472	2,103,149
Depreciation	144,258	85,444
Processing allowance	147,744	147,744
Outside exploration		2,223
	2,420,474	2,338,560
Tax base	151,573	279,960
Proportion of mining tax allowed	151,573 / 279,960 - 54.141%	
1961		
Bullion recovery	2,561,288	2,561,288
E. G. M. A.	182,952	156,867
	2,744,240	2,718,155
Operating expenses	2,126,496	2,126,496
Items disallowed:		
Mining tax	25,500	25,500
Donations	15,000	
U & O insurance	1,687	1,687
Other		28,728
	2,084,309	2,070,581
Depreciation	190,964	65,302
Processing allowance	149,126	149,126
Outside exploration		514
	2,424,399	2,285,523
Tax base	319,841	432,632
Proportion of mining tax allowed	319,841 / 432,632 - 73.929%	

EXHIBIT "C"

O N T A R I O

PAYMENTS TO MINING MUNICIPALITIES IN LIEU OF DIRECT TAXATION ON MINING PLANT

YEAR	ONTARIO MINING TAX	ONTARIO GOVERNMENT PAYMENTS TO MINING MUNICIPALITIES (1)	PERCENT OF MINING TAX
1951	5,222,698	372,559 (2)	7.3
1952	4,377,163	1,427,214	32.6
1953	3,924,521	1,492,647	38.0
1954	4,509,128	1,498,367	33.2
1955	6,611,509	1,499,367	22.6
1956	8,016,487	1,999,653	25.0
1957	9,611,946	2,276,613	23.6
1958	7,223,960	2,628,153	31.4
1959	12,908,669	3,245,759	25.1
1960	17,096,831	5,170,658	30.2
1961	15,444,439	5,224,609	33.8

(1) Public Accounts Fiscal Year Ending March 31 in Succeeding Years

(2) Commencement Mining Revenue Payments to Mining Municipalities - McBain Formula

EXHIBIT "C"

C A L E D O

PAYMENTS TO BIRMING MUNICIPALITIES IN LIEU OF TAXES

TAXATION ON MINING PLANT

YEAR	TAX	MINING ACTIVITIES (1)	ONTARIO GOVERNMENT MINING ACTIVITIES (2)	PERCENT OF MINING TAX
1973	$ 3,152,903	$ 472,936		15
1952	9,177,190	1,472,716		16.0
1953	3,016,321	1,422,847		47.0
1954	4,709,128	1,409,347		29.9
1955	6,411,302	1,439,387		22.4
1956	8,019,907	1,599,855		20.0
1957	8,421,946	2,276,813		27.0
1958	7,123,500	2,502,102		35.1
1959	12,908,589	3,307,755		25.6
1960	17,094,801	3,173,650		18.5
1961	13,445,459	2,334,809		17.3

(1) Public Accounts Fiscal Year Ending March 31 in Succeeding Years

(2) Commencement Mining Revenue Payments to Mining Municipalities - Retain Formula